# Benefits of Exchange in the Light of the Law of Association

Task:

Unit 1: Describing the nature of economics, praxelogy and the general  theory  of human action. Consider the use of though experiments, the theory of values and time factor.
Unit 2: Considering the benefits of exchange in the light of the law of association, the introduction of money in indirect exchange and way income gets distributed among market participants.
Unit 3: Essay on the problems created by governmental interference with markets.
Unit 4: Essay on the contribution of the concept of economic calculation to understand the limits of the corporation and the structure of governance.

## Answer

****UNIT 2****

****Benefits of exchange in the aspect of the Law of Association:****

We can fathom the entire zest of this enquiry simply from an empirical one-liner: sound exchange and cooperation facilitates the optimization of financial and material return, which is one of the foremost corollaries of the Law of Association. Law of association does not dictate the purpose of exchange when both the parties are competent to produce both of the deliverables; rather it encourages exchange as a moral obligation for both of the participants with an affirmation of maximum gain (Mahoney, 2015). It is imperative to admit that this law is not an alternative explanation of value since subjective valuations of the respective commodities tends to deviate the cost index in cases of individual exchange. Therefore, we need to judge the notion of value and their consequent impacts on separate datum. Since there lays an opportunity of benefit from specialization, it is imperative to simulate the concept of opportunity cost and comparative advantage which is considered as the most significant parameter in current context. For both of the participants, the opportunity cost acknowledges the relative capability of one of the actor to produce the other commodity within the same course of time (Kahan, 2014). Thus, opportunity costs can be a prior indicator, which enables the determination of specialization where the ‘absolute advantage’ of production governs the trade and distribution of labor. The rate of trading under the patronization of mutual gains is usually determined by the relative discrepancy of the respective opportunity costs.

|  |  |  |
| --- | --- | --- |
| ****Production Possibilities**** | ****A**** | ****B**** |
| Eggs | 3 eggs | 2 eggs |
| Breads | 5 breads | 4 breads |

If the information on the above table can be interpreted in a separate table (attached below), statistical alterations can evidently express the influence of opportunity cost in enhancing mutual benefit.

|  |  |  |
| --- | --- | --- |
| ****Opportunity Costs**** | ****A**** | ****B**** |
| To produce 1 egg | 5/3 breads per egg | 2 breads per egg |
| To produce 1 bread | ⅗ eggs per bread | ½ eggs per bread |

Law of Associates, being an analytic judgment, resonates with the Law of return and intends to doctrinate how the participants of an exchange with uneven productive competencies, can optimize their investment returns (Benson, 2013). Apart from their personal traits and respective ambience, what boost their deal and eventually heralds towards the developing a market is the spirit of exchange with mutual compatibility.

****Introduction of money in Indirect Exchange:****

Indirect exchange can be cited as any interpersonal exchange where money is  analogous of the barter and employed as the media of exchange. The most common and tangible version of the media of exchange is money (though the coinage ‘common version’ is potentially vague). The praxeological theory approves money as a prior mode of reciprocal exchange due to its precision and fluidity (Kiyotaki and Wright, 2016). In addition to that, prevalent academic apprehensions ensure the validity and supremacy of money over any medium of exchange. The perception of money as a neutral entity is spurious since the notion that index of prices rises or undermines proportionately with the amount of circulated money is a hoax. Moreover, it is farcical to pursue that variations in the circulates sum can impact the costs of commodities and services in a specific course of time since the purchasing capability of every financial unit are inherently aligned with a potential dimension of negotiation among the buyers and sellers. Corollaries of the pursuits of indirect exchange suggest devising a formula, which aims to explore the entire market interface (Ostroy, J.M., 2011). The integral ingredients of this formula are Supply of money, Volume of trade (where money is considered as an equivalent of the assets of reciprocal exchange) and the average velocity of circulation.

It has been already identified that the alterations on amplitudes of these elements is dependent on the interplay of responses from the individual actors. The holistic perspective which all the elements of the equation exchange possess towards the financial phenomena can be cited as a drawback of the framework since the prepossession of the notion of money is an illusion. The catallactics (the economics of exchange) needs to impart a little more effort with money as compared to the vendible commodities and it is their paramount concern to deal with the emerging questions of money. Only catallactics will be able to recommend the advantages of holding which eventually facilitates the determination of the purchasing capabilities (Brunner and Meltzer, 2011). The curiosity to preserve the advantages bring about the notion of demand which, being an intense subjective entity evade the judgments (since value judgments are conducted on objective notes) and shed a specific contribution on the construction of a legitimate price structure.

****Distribution of Income among Market Participants:****

Though there are several others, price is the governing instrument exercised for income distribution. Income can be distributed by deploying some auxiliary instruments such as non-market incomes. A redistribution module of income can be suggested where the gradual diffusion of the income is accomplished through diverse channels such as marketing payments and discounts (Greenwood and Jovanovic, 2010). It is imperative to consider the dimension of wealth dynamics since it is impossible for all the financial agents to accumulate at a common rate and the stagnancy in the distribution of the relative wealth is not desirable. Diverse sources of heterogeneity shows compatibility with the aggregate economy wherever relatively mild financial statuses are characterized on the datum of an individual consumer. The relative discrepancy of incipient wealth across the agents with homothetic inclinations present savings as a constant fraction of the entire wealth, which can be illustrated as the composite of labor income and interest payments (Eissa and Hoynes, 2014).

Since savings from individual wealth is uniform and linear in nature, the composite savings are free from the distribution of wealth. It can be concluded from the above apprehensions that the traits of the composite capital with heterogeneous stimulants are identical in an economy of representative consumer culture. Aggregate dynamics also sheds a significant impact on the distributional faculty since it facilitates the understanding of successive evolution of wealth inequality. Homothetic inclinations between two individuals with uneven endowments imply that they both invest equal moiety of total wealth at a specific point of time and enjoys equal growth rate. ‘Entire Wealth’ can be classified into two integral components; physical capital and the current value of upcoming labor income (Stiglitz, 2010). Since wages are been hiked at equal proportion for both of the stimulants but allocates a greater share for the poorer participant, then the respective capital must be drastically changing as compared to the wealthier participant. It can be formulated from the above scenario that the wealth inequality is diminishing and the growing quotient of the capital stock is swifter since the economy is gathering capital.

****UNIT 3****

****Adverse effects of governmental intervention in Markets:****

In a free market economy, resources are allocated under the guidance of the price mechanism. In a free market, the consumers’ spending and the market’s supply of the product are equated against each other to come up with a market equilibrium price. Price signals make the norms, which the free market would follow (Lundberg and Pollak,2013).. With higher demand level for a good or service, the supply also increases; as the potential profitability rises. This, in turn, brings down the price of the commodity. Free market mechanism is a powerful device that helps to allocate resources through perfect competition.

****Why does the Government intervene the market?****

The government often curbs the basic tenets of a free market economy and intervenes in the market structure with the idea that changing the resource allocations would help the economy achieve betterment in terms of economic development and social welfare. Governments intervene the free market for a number of reasons:

* To make up for market failures
* To make distribution of income and wealth more equitable
* To boost the market performances

****Tools for market interventions****

The government can intervene the free market using a number of economic strategies and tools. Price controlling and providing subsidies or levying taxes - these are some of the government tactics that can make the market distorted.

****Price ceiling:****A price ceiling is when the government fixes how much high can the price of a commodity can get. The fixed price must be kept under the market equilibrium price if it needs to be effective. In a price ceiling situation, the quantity demanded for the commodity is more than the quantity supplied. At price ceiling, marginal benefit exceeds marginal cost. Hence, inefficiency can be seen. The amount of this inefficiency is equal to the deadweight welfare loss. However, it must be kept in mind that price of a commodity cannot simply be raised, as there are legal issues and limitations of price (Calabresi,  2015).

****Price flooring:****This is the lowest price a commodity could be sold at, legally, set by the government. The government uses this tool to prevent the price of a commodity from being too low. Minimum wage is the best and most common example of price flooring. The government sets the prices to a basic level and renders all wages below that as illegal, so that no employer can exploit its employees and cheat them. The government also often sets a minimum price for agricultural crops to ensure protection of the farmers. In this case, quantity supplied exceeds quantity demanded and surplus is generated. If this surplus amount is allowed to circulate in the market, price of the commodity would plummet below the market equilibrium. The government has to get involved in the market to prevent this drop of price. Government can buy the surplus to ensure the price remains at a desired level as well as stocking up on the commodity. If the surplus amount is allowed to go to waste, then it would make the suppliers who were able to sell their production would be better off than the ones who could not succeed in doing so. Minimum wage law makes a situation where workers who are okay with working at a lower wage rate, do not get any jobs at all. This would be one of the reasons behind rise of unemployment.

To make sure there is no surplus in the market, the government can again take few other strategies. It can start licensing the producers so that all production is regulated and monitored. The government also, at times, pays some producers so that they do not produce anymore. Production rights can also induce corruption and high levels of lobbying.

Giving the consumers subsidies is another way the government can ensure their is not surplus in the economy. Paying part of the cost for a commodity makes up for an incentive that would make more consumers want to buy a certain product.

****Subsidy:****A subsidy is a form of financial assistance made by the government to the producers or distributors (Tanzi,  2017). This is done with the aims of either trying to prevent an industry from declining or stopping the price of the commodity that the particular industry produces, or simply to encourage the business to hire more labor. Subsidies make commodities more accessible for the consumers, as the government pays part of its cost. Free market economy theorists counter subsidies by saying that this distorts free market mechanism and may eventually result in government failures. This can happen only if government intervention leads to a worse allocation of resources than the situation was before.

Taxation comes into play to offset the adverse effects from the subsidy. Moreover, subsidies are paid from the government tax revenues. This results in higher tax rates, which means it is not helpful to the economy.

****Adversities that surface due to government intervention****

Many negative effects can rise from government intervention in the free market.

****Political pressure:****Political lobbying is one of the greatest problems that can happen due to government interventions. Licensing productions and suppliers lead to rise in corruption within the government, which aims, to profit from the market restrictions on the others. Political pressures make the government often take wrong directions and deviate from the original plans. In the end this can harm the economy so much that it can even become reasons behind government collapse or economy bankruptcy (Griliches, 2011).

****Blow to personal freedom:****Many theorists think that government interventions are one of the biggest cases of breach on personal decision-making and even steps right into the people’s private spaces. The government decides how much of which commodity each individual buy would. It decides how would the consumers spend or how would they act to specific laws made by the government.

Bureaucracy rises due to government interventions. The industries that are owned and run by the government see no profit incentive and hence they produce inefficiently (Schreyer, 2010). If these industries are handed over to the private sectors, the overall efficiency savings would amount to higher levels. The politicians do not know how to allocate efficiently the resources properly and that causes disruption. Theorists further argue that government intervention does not only hold any power to lower the effects of recession, but creates additional problems like public sector debts.

****UNIT 4****

****Concept of economic calculation and its contribution:****

Economic calculation is cost-benefit analysis. It is measured to analyze the costs and benefits from the different alternatives to the same problem. Economic calculation theory is a criticism against the usage of economic planning to act as a substitute for allocating the factors of production based on a market. Ludwig von Mises first devised this theory in 1920, in his article Economic Calculation in the Socialist Commonwealth (Letza *et al*. 2016). It refers to the process of contrasting the expected costs of a project against the revenue that is expected to be generated from the project. This is used to determine if a project has viabilities to succeed and making important investment decisions.

Governments perform economic calculations to determine the social costs and benefits of a certain project that is to be undertaken or has already been commenced. Large public investments are always decided upon after the public agencies have conducted cost-benefit analyses. This is done to understand if the society and the individual would gain anything at all from the investments (Brudney, 2011).

Most economic theories focus mostly on the market exchange costs, while it neglects the governing internal exchange costs. Mises’ theories are not exclusively applicable to the backdrop of socialism- this is the first thing that needs to be understood in order to gain a proper knowledge on the topic. It deals with the role that prices play in the case of capital goods. Businesses decide whether to invest more or how to allocate resources efficiently based on predictions on future prices for the commodity that the industry produces. The current prices have the information to facilitate the industries in doing this. Only a proper and detailed information on all the prices would ensure profits. If there are no capital goods, that means there is no market for the goods and no prices, which would prevent the business from making decisions to achieve maximum profits.

****Apprehensions about Limits of Corporation****

The financial limits can be defined with an easy metric of empirical equations, which reflects the obligatory constraints, and values an enterprise must abide with. The variables of this governing equations can be broadly presented as; wellhead prices, operating costs, tax rates and royalty factors. In order to determine the unique economic limit and perform the sensitivity analysis it is imperative to calculate the above-mentioned constraints (Sheaff *et al*. 2013). Economists seem pedantically concerned and equally perplexed to derive the universal explanation of ‘firm’. In the light of the theories of microeconomics, ‘firm’(which stands for corporation in this course of study) can be described as a functional unit of production and if we permit a little fantasy on that particular note, immense scholars of this field compares the empirical notion of firm with a mysterious ‘black box’. The additional variables of the above mentioned equations (in accordance with the prevalent business practices) which requires consecutive linear and vertical integration are; franchising, commercial agreement, joint research ventures, transfer pricing and several others. In this segment of the entire study, focus has been centralized around Mises’ argument about economic calculations.

****Apprehensions about Structure of Governance****

The simultaneous existence of the different formats in the corresponding production network, whose integral properties are identical in terms of certain specificity, is a potential challenge  for transaction price economics, since it forecasts a convergence towards the prudent and effective structures. The study is authentic and descriptive and intends to discern the governing or determining parameters to the likelihood of occurrence of the specific phenomena. Thus, it is favorable to draw an assumption that an effective governance pattern should possess to flourish. At the initial phase, all the inefficient dimensions are drained which prevails the possibility to last until the end. The dependence of trajectory which every structure pertains allows the inefficiencies to persist. The required time for the most worthy structure to champion would depend on diverse factors (such as incomplete or asymmetric structure, insufficient information, formal and informal institutional regulations etc) which advocates specific structures. A certain dimension of specificity of the properties is reckoned as one of the major ingredient that can describe the transactional costs (Markell,  2013).

The following aspect that requires consideration in the scenario is the frequency of cost transaction. The inefficiencies, which are embedded in the declared rate pattern, have been assessed with in-depth introspection and the procurement of the rationale is well structured, but the underlying encounters among protocols and corporate efficiency and the operational skills has not been properly explored. Eminent economists trust that along with the misgivings and the inefficiencies related to the exploitation of input, the moot managerial inefficiencies that evokes from the increasingly regulated ambiences in which they are dealt. In this ambience, the prior trade came from the trustees and franchisees. In a diminishing ambience, a considerably marginal rate of financial and material return would not enable the governance structure to sustain. Moreover, the rate of adjustment it may require to generate and enhance revenues the management is expected to degrade the work force and to characterize the capital to figure out the desirable marginal returns in order to diversify the activities.